

## Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03  
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INFO AMEMBASSY SEOUL  
AMCONSUL HONG KONG  
USLO PEKING  
CINCPAC HONOLULU  
COMUSJAPAN YOKOTA

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CINCPAC FOR POLAD

E.O. 11652: GDS  
TAGS: PINT, JA  
SUBJECT: LDP AND OPPOSITION REACH COMPROMISE ON BUDGET

SUMMARY. IN MOVE REFLECTING NEW BALANCE BETWEEN LDP AND OPPOSITION IN DIET, COMPROMISE WAS REACHED MARCH 9 ON SCALE OF TAX REDUCTIONS TO BE INCLUDED IN JFY-77 BUDGET PACKAGE. HAVING STRESSED FOR WEEKS THAT TAX CUTS ALREADY INCLUDED IN GOJ BUDGET DRAFT WERE MAXIMUM FEASIBLE, PRIMIN FUKUDA WAS FORCED TO ACCEDE TO OPPOSITION DEMANDS IN ORDER TO AVERT POSSIBLE FURTHER DELAYS AND ASSURE LOWER HOUSE BUDGET PASSAGE PRIOR TO WASHINGTON VISIT. EPISODE HAS PROBABLY TARNISHED FUKUDA'S LEADERSHIP IMAGE AND ILLUSTRATES THAT ON ISSUES WHERE LDP FACES UNITED OPPOSITION, LATTER'S VIEWS WILL HAVE TO BE TAKEN INTO ACCOUNT, AND FUTURE SUCH COMPROMISES WILL PROBABLY BECOME MORE FREQUENT. END SUMMARY

1. FOLLOWING SIX WEEKS OF DIET DELIBERATIONS DOMINATED BY TAX REDUCTION ISSUE, LDP AND OPPOSITION PARTIES REACHED AGREEMENT  
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MARCH 9 ON COMPROMISE PACKAGE FOR INCREASED INCOME TAX REDUCTIONS IN JFY-77 BUDGET. PACKAGE CONSISTS OF TWO ELEMENTS: INCREASE IN PERSONAL INCOME TAX CUT FROM GOJ-PROPOSED 353 BILLION YEN (1.2 BILLION DOLLARS) TO 650 BILLION YEN (2.25 BILLION DOLLARS) AND ADVANCE OF DATE FOR IMPLEMENTATION OF VARIOUS SOCIAL SECURITY AND PENSION PAYMENT INCREASES INVOLVING SOME 62 BILLION YEN (0.2 BILLION DOLLARS). TAX CUT IS EXPECTED

TO RESULT IN 15,000 YEN (52 DOLLARS) SAVING FOR AVERAGE FAMILY OF FOUR. OPPOSITION ALSO WRESTED PROMISE FROM LDP THAT IT WOULD GIVE SERIOUS CONSIDERATION TO CORRECTING INEQUITIES IN TAX SYSTEM IN COMPILATION OF JDY-78 BUDGET. AS RESULT OF COMPROMISE, LOWER HOUSE IS EXPECTED TO APPROVE BUDGET BY MARCH 16.

2. UNTIL LDP DEFEAT IN DECEMBER LOWER HOUSE ELECTION, REVISION OR REJECTION BY DIET OF GOJ-SPONSORED BUDGET WAS VIRTUALLY UNTHINKABLE. FOR PAST TWENTY-SEVEN YEARS BUDGET HAD BEEN APPROVED WITHOUT DIET AMENDMENT BY CONSERVATIVE-DOMINATED DIET. POST-ELECTION LINEUP IN LOWER HOUSE, IN WHICH LDP HOLDS ONLY FIVE-SEAT MAJORITY AND OPPOSITION PARTIES NOW HAVE MAJORITY OF SEATS IN BUDGET COMMITTEE, HAS CREATED ENTIRELY NEW SITUATION. AT FIRST, THIS DID NOT TROUBLE LDP LEADERSHIP AS PRIMIN FUKUDA AND OTHER LEADERS CALCULATED THEY COULD COUNT ON TRADITIONAL OPPOSITION DISUNITY AND COOPERATION OF CONSERVATIVE NLC TO CARRY DAY. THIS CALCULATION PROVED ILLUSORY. ALMOST AS SOON AS GOJ BUDGET DRAFT, INCLUDING 350 BILLION YEN TAX CUT, WAS TABLED, OPPOSITION PARTIES, INCLUDING NLC, EXPRESSED DISAPPOINTMENT WITH PROPOSED TAX CUTS AND, MINDFUL OF COMING UPPER HOUSE ELECTION, SEIZED UPON POPULAR IDEA OF INCREASED TAX CUTS. DESPITE DIFFICULTIES AND TRADITIONAL ANIMOSITIES, OPPOSITION PARTIES MANAGED TO STAY UNITED IN PRESSING LDP TO AGREE TO ONE TRILLION YEN TAX CUT.

3. DURING DIET DEBATE, FUKUDA REPEATEDLY REJECTED OPPOSITION DEMANDS, ARGUING THAT CUTS ALREADY IN BUDGET WERE MAXIMUM FEASIBLE AND THAT INCREASED TAX CUTS WOULD AMOUNT TO FINANCIAL SUICIDE. RUMORS OF IMPENDING NECESSITY TO COMPROMISE ROSE, HOWEVER, AND TIDE BEGAN TO TURN AGAINST HIM WHEN IN MID-FEBRUARY

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OPPOSITION BEGAN SERIOUSLY THREATENING TO INTRODUCE MOTION IN BUDGET COMMITTEE TO REJECT BUDGET IF LDP DID NOT AGREE TO REVISION. AWARE THAT PASSAGE OF SUCH MOTION WOULD AMOUNT TO VOTE OF NON-CONFIDENCE IN GOVERNMENT AND DETERMINED THAT BUDGET SHOULD PASS LOWER HOUSE BEFORE FUKUDA'S VISIT TO WASHINGTON, LDP LEADERSHIP BEGAN TO MAKE CONCILIATORY STATEMENTS ABOUT REVISION AND TO EXPLORE WITH OPPOSITION OUTLINES OF ACCEPTABLE COMPROMISE. OBJECTIONS IN SECTORS OF LDP AND FINANCE MINISTRY, WHICH BELIEVE IN INVIOABILITY OF GOVERNMENT BUDGET, ARE LOATH TO GIVE IN TO OPPOSITION IN ANY AREA, AND REMAIN FEARFUL OF SETTING PRECEDENTS, WERE OVERCOME.

4. COMMENT. COMPROMISE ITSELF TOOK PLACE RELATIVELY SMOOTHLY -- SO SMOOTHLY AS TO SUGGEST FAIR AMOUNT OF STAGE MANAGEMENT MAY HAVE BEEN WORKED OUT WEEKS AGO. ALL PARTIES SHARED INTEREST IN NOT DELAYING ECONOMIC STIMULATION; IN ADDITION, OPPOSITION PARTIES, DESIRING TO APPEAR INCREASINGLY RESPONSIBLE, SAW THEIR ROLE IN BUDGET REVISION AS ELECTION PLUS. IT HAS TARNISHED HIS LEADERSHIP IMAGE, INVITING CRITICISM FROM MEMBERS OF WON PARTY

AND LOWERING HIS STOCK IN EYES OF FINANCIAL BUREAUCRACY. THAT HE ACCEDED TO COMPROMISE, HOWEVER, IS DEMONSTRATION OF HIS RECOGNITION OF NEED FOR INCREASED FLEXIBILITY IN ERA OF NEAR CONSERVATIVE/OPPOSITION BALANCE. EPISODE ILLUSTRATES THAT, ON ISSUES WHERE LDP FACES UNITED AND DETERMINED OPPOSITION WITH VOTING MAJORITY, IF ONLY IN KEY COMMITTEE, ITS VIEWS WILL HAVE TO BE TAKEN INTO ACCOUNT AND THAT COMPROMISES SUCH AS THIS MAY BECOME MORE FREQUENT.

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## Message Attributes

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